

## EXAMINATION QUESTIONS

**NOV– 2023**

**Question 2(a)**

**(3 Marks)**

State (Yes/No) whether the following transactions can be treated as income deemed to accrue or arise in India:

- (i) Hire charges paid outside India for the use of machinery situated in India.
- (ii) Income of a non-resident and non-citizen of India from the shooting of cinematograph film in India.
- (iii) Capital gain arising through a transfer of a house property situated in India, the place of registration and the place of payment of consideration being outside India.
- (iv) Salary paid by the Government to a citizen of India for the services rendered outside India.
- (v) Past period foreign untaxed income brought to India during the previous year.
- (vi) Gift received by a non-resident on the occasion of his wedding in India.

**Solution:**

- (i) Hire charges paid outside India for the use of machinery situated in India. It is accruing/arising in India because source of income is in India.
- (ii) Income of a non-resident and non-citizen of India from the shooting of cinematograph film in India. It is income accruing/arising abroad, provided the film is shown outside India.
- (iii) Capital gain arising through a transfer of a house property situated in India, the place of registration and the place of payment of consideration being outside India. It is accruing/arising in India because source of income is in India.
- (iv) Salary paid by the Government to a citizen of India for the services rendered outside India. It is accruing/arising in India.
- (v) Past period foreign untaxed income brought to India during the previous year. Such income is not taxable, hence not accruing/arising in India.
- (vi) Gift received by a non-resident on the occasion of his wedding in India. It is accruing/arising in India however it is exempt from income tax.

**NOV– 2023**

**Question 2(b)**

**(4 Marks)**

Mr. Sanjay has following incomes during the previous year 2022-23. Compute taxable income of Mr. Sanjay for the assessment year 2023-24 if he is a

- (i) Not Ordinarily resident      (ii) Non resident
- (i) Interest on England Development Bonds (1/3 received in India) ₹ 60,000.
- (ii) Interest received from a non-resident ₹ 5,000 against a loan given to him to run a business in India.
- (iii) Royalty received from Akhil, a resident, for technical services given to run a business outside India ₹20,000.
- (iv) Income from business in Sri Lanka ₹ 25,000 out of which ₹ 15,000 were received in India. The business is controlled from India.

**Solution:**

	<b>NOR</b>	<b>NR</b>
(i)(a) Income accruing/arising abroad and received abroad ₹40,000	Nil	Nil
(i)(b) Income received in India ₹20,000	20,000	20,000
(ii) Interest received from a non-resident ₹ 5,000 against a loan given to him to run a business in India.	5,000	5,000
(iii) Royalty received from Akhil, a resident, for technical services given to run a business outside India ₹20,000.	<i>Nil</i>	<i>Nil</i>
(iv)(a) Income accruing/arising abroad and received abroad ₹10,000	10,000	Nil
(iv)(b) Income received in India ₹15,000	15,000	15,000
<b>Taxable Income</b>	<b><i>50,000</i></b>	<b><i>40,000</i></b>

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 155****(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

Income under the head House Property	5,52,000.00
<b>Income under the head other sources</b>	
Interest from unrealized rent	7,000.00
<b>Income under the head Capital Gains</b>	
Income from STCG u/s 111A	5,00,000.00
<b>Gross Total Income</b>	<b>10,59,000.00</b>
Less: Deduction under Chapter VI-A	NIL
<b>Total Income</b>	<b>10,59,000.00</b>
<b>Computation of Tax Liability</b>	
Tax on ₹ 5,59,000 at slab rate	12,950.00
Tax on STCG u/s 111A ₹5,00,000 @ 15%	75,000.00
Tax before health and education cess	87,950.00
Add: HEC @ 4%	3,518.00
Tax Liability	91,468.00
Rounded off u/s 288B	91,470.00

**Question 6: Write a note on Statutory Deduction or Standard Deduction.****Answer: Statutory Deduction or Standard Deduction Section 24(a)**

*Under section 24(a)*, every assessee shall be allowed a notional expenditure equal to thirty per cent of the net annual value of the house for the various expenditures incurred by him.

Actual expenditure incurred by the assessee shall not be taken into consideration.

**Example**

Net annual value of one house is ₹3,00,000 and actual expenditure incurred on repairs are ₹75,000, deduction allowed under section 24(a) shall be ₹90,000.

**Question 7: Write a note on deduction for interest on the capital borrowed.****Answer: Interest on borrowed capital is allowed as deduction under section 24(b)**

If any assessee has taken a loan or advance for purchase/ construction / renovation / addition / alteration / substitution or repair etc. of the house property, interest on such loan shall be allowed to be deducted under section 24(b) from NAV and interest is allowed on due basis but only simple interest is allowed i.e. interest on interest is not allowed. The assessee can take any number of loan. Interest for the year for which income is being computed shall be allowed in the same year and shall be called current period interest. Interest for the period prior to the year in which the house was purchased or constructed shall be called prior period interest and such interest shall be allowed in 5 annual equal instalments starting from the year in which the house was purchased or constructed. E.g. If Mr. X had taken a loan of ₹5,00,000 for construction of property on 01.10.2022 and interest is payable @ 10% p.a. and the construction was completed on 30.06.2023, in this case interest allowed under section 24(b) shall be:

Interest for the year (01.04.2023 to 31.03.2024) = 10% of ₹ 5,00,000 = ₹ 50,000

Prior period interest = 10% of ₹ 5,00,000 for 6 months (from 01.10.2022 to 31.03.2023) = ₹ 25,000

Prior period interest to be allowed in 5 equal annual installments of ₹ 5,000 from the year of completion of construction i.e. in this case, P.Y.2023-24.

Therefore, total interest deduction under section 24(b) = 50,000 + 5000 = ₹ 55,000.

If any assessee has taken a new loan to repay the original loan, in such cases interest for such new loan shall be allowed in the similar manner.

**Unpaid purchase price would be considered as capital borrowed:**

Where a buyer enters into an arrangement with a seller to pay the sale price in installments along with interest due thereon, the seller becomes the lender in relation to the unpaid purchase price and the buyer becomes the borrower. In such a case, unpaid purchase price can be treated as capital borrowed for acquiring property and interest paid thereon can be allowed as deduction under section 24.

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 170**  
**(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

She had taken a loan from Standard Chartered Bank in June, 2021 for purchasing this flat. Interest on loan was as under:

Period prior to 1.4.2023	₹49,200
1.4.2023 to 30.6.2023	₹50,800
1.7.2023 to 31.3.2024	₹1,31,300

Certificate confirming the amount of Interest has been deposited.

She had a house property in Bangalore, which was sold in March, 2019. In respect of this house, she received arrears of rent of ₹60,000 in March, 2024. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the assessment year 2024-25.

**Solution:** Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income. She possesses a self-occupied house at Los Angeles as well as at Chennai. She can take the benefit of “Nil” Annual Value in respect of both the house properties. As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25A.

It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction. Accordingly, the income from house property of Mrs. Rohini Ravi will be calculated as under:

**Self - occupied house at Los Angeles**

Gross Annual Value	Nil
<i>Less:</i> Municipal taxes	<u>Nil</u>
Net Annual Value	Nil
<i>Less:</i> Statutory deduction under section 24(a) @ 30% of NAV	Nil
<i>Less:</i> Interest on Housing Loan u/s 24(b)	Nil
Loss from House property	Nil

**Self - occupied property at Chennai**

Gross Annual Value	Nil
<i>Less:</i> Municipal taxes	<u>Nil</u>
Net Annual Value	Nil
<i>Less:</i> Statutory deduction under section 24(a) @ 30% of NAV	Nil
<i>Less:</i> Interest on Housing Loan u/s 24(b)	Nil
Loss from House property	Nil

**Arrears in respect of Bangalore Property (Section 25A)**

Arrears of rent received	60,000.00
<i>Less:</i> Deduction under section 25A @ 30%	<u>(18,000.00)</u>
Income from House property	42,000.00

**Note: Calculation of Interest**

<i>Interest for the current year (50,800+1,31,300)</i>	<i>1,82,100.00</i>
<i>Add: 1/5<sup>th</sup> of Prior period interest (49,200 x 1/5)</i>	<i>9,840.00</i>
<i>Interest deduction allowed u/s 24(b)</i>	<i>1,91,940.00</i>

## **MULTIPLE CHOICE QUESTIONS**

**1. Vacant site lease rent is taxable as**

- (a) Income from house property
- (b) Business income or income from house property, as the case may be
- (c) Income from other sources or business income, as the case may be
- (d) Income from other sources or income from house property, as the case may be

**2. Treatment of unrealized rent for determining income from house property**

- (a) To be deducted from expected rent
- (b) To be deducted from actual rent
- (c) To be deducted under section 24 from annual value
- (d) To be deducted from both expected rent and actual rent

**3. Municipal taxes to be deducted from GAV should be**

- (a) Paid by the tenant during the previous year
- (b) Paid by the owner during the previous year
- (c) Accrued during the previous year
- (d) Paid during the previous year either by tenant or owner

**4. Deduction under section 24(a) is**

- (a) 1/3<sup>rd</sup> of NAV
- (b) repairs actually incurred by the owner
- (c) 30% of NAV
- (d) Interest on borrowed capital

**5. Interest on borrowed capital accrued up to the end of the previous year prior to the year of completion of construction is**

- (a) allowed as a deduction in the year of completion of construction
- (b) allowed in 5 equal annual installments from the year of completion of construction
- (c) allowed in the respective year in which the interest accrues
- (d) not allowed

**6. Leena received ₹30,000 as arrears of rent during the P.Y. 2023-24. The amount taxable under section 25A would be -**

- (a) ₹30,000
- (b) ₹21,000
- (c) ₹20,000
- (d) ₹15,000

**7. Vidya received ₹90,000 in May, 2023 towards recovery of unrealised rent, which was deducted from actual rent during the P.Y. 2021-22 for determining annual value. Legal expense incurred in relation to unrealized rent is ₹20,000. The amount taxable under section 25A for A.Y.2024-25 would be -**

- (a) ₹70,000
- (b) ₹63,000
- (c) ₹60,000
- (d) ₹49,000

**8. Ganesh and Rajesh are co-owners of a self-occupied property. They own 50% share each. The interest paid by each co-owner during the previous year on loan (taken for acquisition of property during the year 2004) is ₹2,05,000. The amount of allowable deduction in respect of each co-owner is –**

- (a) ₹2,05,000
- (b) ₹1,02,500
- (c) Nil**
- (d) ₹1,00,000

**9. Mr. Zen owns a flat in Mumbai which was let out by him in the previous year 2023 – 24 on a rent of ₹20,000 p.m. upto December, 2023 and for ₹30,000 p.m. thereafter. The annual municipal value is of ₹3,00,000, Fair Rent is ₹2,50,000 and Standard Rent is ₹2,90,000. The Gross Annual Value of the flat shall be taken as:**

- (a) ₹ 2,70,000

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 176**  
(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

**Problem 6.**

Compute gross annual value in the following cases for the assessment year 2024-25:

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Fair Rent (p.m.)	10,000	12,000	13,000	15,000
Municipal Valuation (p.m.)	11,000	10,000	8,000	17,000
Standard Rent (p.m.)	12,000	11,000	7,000	16,000
Rent received/ receivable (p.m.)	7,000	11,500	20,000	16,000
Vacancy	-	2 months	1 month	3 month
Unrealised rent	1 month	-	3 month	1 month

**Answer** = Gross Annual Value: Situation 1: ₹1,32,000; Situation 2: ₹1,15,000; Situation 3: ₹1,60,000; Situation 4: ₹1,92,000

**Problem 7.**

Mr. X has let out one house property @ ₹70,000 per month and there is unrealised Rent of 2 months and there is vacancy of 3 month. Fair rent ₹60,000 per month, municipal valuation ₹55,000 per month and standard rent ₹80,000 per month. Municipal tax paid ₹62,000. Interest on loan for construction of the house property is ₹75,000. The assessee has unrealised Rent of ₹2,00,000 in P.Y. 2021-22 and he has recovered ₹1,50,000 in P.Y. 2023-24 and interest of ₹18,000 and he has incurred ₹11,000 as legal expense. He has income from LTCG u/s 112 ₹4,00,000 and STCG u/s 111A ₹1,00,000.

Compute his tax liability for assessment year 2024-25.

**Answer:** Tax Liability: ₹1,09,650

**Problem 8.**

Mr. X (non-resident) has one house with fair rent ₹20,000 p.m., municipal valuation ₹10,000 p.m., standard rent ₹18,000 p.m. It was let out for ₹12,000 p.m. but it remains vacant for 1½ months and there was unrealised rent for 2 months. Municipal taxes paid are ₹11,000 and interest on capital borrowed for construction of the house is ₹3,00,000.

Mr. X has income under the head other sources ₹7,00,000.

Compute his total income and tax liability for the assessment year 2024-25.

**Answer** = Total Income: ₹7,00,000; Tax Liability: ₹26,000

**Problem 9.**

Mrs. X has taken a loan of ₹ 11,00,000 on 01.07.2017 at a rate of 10% per annum from SBI for construction of one house which was completed on 31.03.2019 and the house was let out at a rate of ₹80,000 per month w.e.f. 01.11.2022 and fair rent is ₹1,00,000 per month. Municipal taxes paid in previous year 2023-2024 ₹30,000. She has taken a fresh loan of ₹11,00,000 on 01.07.2022 @ 11% per annum and it was utilized to repay the original amount. She has income from Causal income ₹8,00,000.

Compute her income tax liability for assessment year 2024-25.

**Answer:** Income Tax Liability: ₹2,75,390

**Problem 10.**

Mr. X took a loan of ₹ 6,10,500 @ 7% p.a. on 01.09.2020 from his friend for construction of one house which was completed on 01.06.2023 and it was let out @ ₹9,000 p.m. It remained vacant for 1½ month and there is unrealised rent of ₹1,000. The fair rent of house is ₹10,000 p.m. Assessee has repaid half of the loan amount on 01.07.2022 and remaining amount on 01.02.2024. He has also paid municipal tax of ₹3,000. His income under the head salary ₹8,65,000.

Compute his total income and tax liability for the assessment year 2024-25.

**Answer** = Total Income: ₹8,96,220; Tax Liability: ₹46,410

**Problem 11.**

Mr. X has taken a loan on 01.07.2020 from SBI @ 11% p.a. of ₹15,00,000 for construction of one house which was completed on 01.11.2022 and was self occupied and municipal taxes paid in previous year

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 177****(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

2023-24 ₹32,000. He has given repayment of loan of ₹70,000 on 01.01.2024. He has submitted a certificate confirming the amount of interest.

He has income under the head Salary ₹10,50,000

Compute income tax liability for assessment year 2024-25.

**Answer:** Tax Liability: ₹70,200

**Problem 12.**

Mrs. X has taken a loan on 01.11.2019 from PNB @ 10% p.a. of ₹10,00,000 for purchase of one house which was purchased on 01.01.2020 and was self occupied and municipal taxes paid in previous year 2023-2024 ₹30,000. She has repaid the loan amount in annual installments of ₹50,000 starting from 01.01.2021. The house was vacant for 1 month in previous year 2023-24. She has submitted a certificate confirming the amount of interest.

She has short term capital gains under section 111A ₹10,00,000.

Compute Income Tax Liability for assessment year 2024-25.

**Answer:** Tax Liability: ₹1,09,200

**Problem 13.**

Mr. X has taken a loan of ₹15,00,000 from State Bank on 01.07.2021 @ 10% p.a. and the residential house was completed on 01.05.2023 and was let out w.e.f. 01.06.2023 @ 80,000 p.m. and fair rent of the house is ₹90,000 p.m.

He repaid half of the loan amount on 01.01.2024. He has income under the head Business/Profession ₹6,00,000.

Compute his Income Tax Liability for assessment year 2024-25.

**Answer = Total Income: ₹11,09,250; Tax Liability: ₹79,440**

**Problem 14.**

Mr. X has taken a loan of ₹11,00,000 on 01.07.2020 @ 10% p.a. from his friend for construction of one house which was completed on 01.09.2022 and the house is self occupied during the previous year 2023-24 and Mr. X has paid municipal tax of ₹12,000.

The assessee has submitted a certificate confirming the amount of interest. Mr. X has short term capital gains under section 111A ₹120 lakhs.

Compute his income and Tax Liability for the assessment year 2024-25.

**Answer:** Total Income: ₹ 120,00,000; Tax Liability: ₹20,98,980

**Problem 15.**

Mr. X has 2 houses. First is self occupied with fair rent ₹20,000 p.a., municipal valuation is ₹55,000 p.a.. Fair rent as per Rent Control Act is ₹50,000 p.a.. However the house remains vacant for 2 months Architect has issued completion certificate on 01.07.2021. Mr. X has taken loan for addition to house ₹3,50,000 on 01.04.2023 @ 13% p.a. The loan was repaid on 01.03.2024 and assessee has submitted a certificate from the person from whom he has taken the loan certifying that the amount of interest claimed by Mr. X is correct. In the earlier years, the house was let out and the assessee has recovered unrealised rent of ₹2,000 in the previous year 2023-24. The assessee has also incurred legal expenses of ₹350.

The second house is also self-occupied. However its similar building rent is ₹64,000 p.a. and rent determined by municipality for charging house tax is ₹66,000 p.a. Its standard rent is ₹6,000 p.m. municipal tax payable are ₹5,000.

He has long term capital gains ₹20,00,000.

Compute his income tax liability for Assessment Year 2024-25.

**Answer = Income Tax Liability: ₹3,53,890**

**Problem 16.**

Mr. X has let out one house @ ₹45,000 p.m., but this house was vacated on 01.11.2023. The house was self occupied w.e.f. 01.01.2024. Fair rent of this house is ₹50,000 p.m., municipal valuation is ₹47,000 p.m. and standard rent is ₹48,000 p.m. The assessee has paid municipal taxes @ 10% of municipal valuation. Interest

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(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

**Solution 8:**

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Gross Annual Value

2,16,000.00

**Working Note:**

₹

(a) Fair Rent (20,000 x 12)	2,40,000
(b) Municipal Valuation (10,000 x 12)	1,20,000
(c) Higher of (a) or (b)	2,40,000
(d) Standard Rent (18,000 x 12)	2,16,000
(e) Expected Rent {Lower of (c) or (d)}	2,16,000
(f) Rent Receivable = (12,000 x 8.5)	1,02,000
If there was no vacancy, in that case rent received/receivable would have been ₹1,20,000 and it was still less than expected rent, therefore GAV shall be expected rent.	
GAV	2,16,000

Less: Municipal Tax

(11,000.00)

Net Annual Value

2,05,000.00

Less: 30% of NAV u/s 24(a)

(61,500.00)

Less: Interest on capital borrowed u/s 24(b)

(3,00,000.00)

Loss under the head House Property

(1,56,500.00)

***Income under the head Other Sources******7,00,000.00******Gross Total Income******7,00,000.00******Less: Deduction under Chapter VI-A******Nil******Total Income******7,00,000.00*****Computation of Tax Liability*****Tax on ₹7,00,000 at slab rate******25,000.00******Add: HEC @ 4%******1,000.00******Tax Liability******26,000.00******Loss under the head House Property to be carried forward******(1,56,500.00)*****Solution 9:**

₹

**Income under the head House Property**

Gross annual value

12,00,000.00

**Working Note:**

₹

Fair rent (1,00,000 x 12)	12,00,000
Rent received (80,000 x 12)	9,60,000
Higher shall be the GAV i.e.	12,00,000

Less: Municipal taxes paid

(30,000.00)

Net Annual Value

11,70,000.00

Less: 30% of NAV u/s 24(a)

(3,51,000.00)

Less: Interest on capital borrowed u/s 24(b)

(1,21,000.00)

**Working Note:**

Prior period interest

Nil

Current year interest 11,00,000 x 11% = 1,21,000

Income under the head House Property

6,98,000.00

Income under the head Other Sources (Casual income)

8,00,000.00

Gross Total Income

14,98,000.00

Less: Deduction under Chapter VI-A

Nil

Total Income

14,98,000.00

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 193**

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Gross Total Income	120,00,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	120,00,000.00
<b>Computation of Tax Liability</b>	
Tax on ₹117,00,000 (₹120,00,000 – 3,00,000) @ 15%	17,55,000.00
Add: Surcharge @ 15%	2,63,250.00
Tax before health & education cess	20,18,250.00
Add: HEC @ 4%	80,730.00
Tax liability	20,98,980.00

**Solution 15:**

₹

As per the amendments now two house shall be treated as self-occupied.

**House I & II is self-occupied**

Income from house I & II	Nil
Income under the head House Property	Nil
Add: Unrealised rent received (2,000 – 600)	1,400.00
Income under the head House Property	1,400.00
Income under the head Capital Gains (LTCG)	20,00,000.00
Gross Total Income	20,01,400.00
Less: Deduction under Chapter VI-A	Nil
Total Income	20,01,400.00

**Computation of Tax Liability****Normal Income ₹1,400****Nil****Tax on LTCG ₹17,01,400 (₹20,00,000 – ₹2,98,600) @ 20%****3,40,280.00**

Add: HEC @ 4%

13,611.20

Tax Liability

3,53,891.20

Rounded off u/s 288B

3,53,890.00

**Solution 16:**

₹

Gross Annual Value

5,76,000.00

**Working Note:**

₹

(a) Fair Rent (50,000 x 12)	6,00,000
(b) Municipal Valuation (47,000 x 12)	5,64,000
(c) Higher of (a) or (b)	6,00,000
(d) Standard Rent (48,000 x 12)	5,76,000
(e) Expected rent {Lower of (c) or (d)}	5,76,000
(f) Rent Receivable (45,000 x 7)	3,15,000
If there was no vacancy, in that case rent received/receivable would have been ₹4,05,000 and it was still less than expected rent, therefore GAV shall be expected rent	
GAV	5,76,000

Less: Municipal Tax

(56,400.00)

Net Annual Value

5,19,600.00

Less: 30% of NAV u/s 24(a)

(1,55,880.00)

Less: Interest on capital borrowed u/s 24(b)

(42,000.00)

Income under the head House Property

3,21,720.00

Income under the head Capital Gains (LTCG u/s 112)

7,50,000.00

Gross Total Income

10,71,720.00

Less: Deduction under Chapter VI-A

Nil

Total Income

10,71,720.00

**Computation of Tax Liability**

Tax on ₹3,21,720 at slab rate

1,086.00

Tax on LTCG u/s 112 ₹7,50,000 @ 20%

1,50,000.00

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 201****(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

Municipal taxes of ₹4,00,000 for the financial year 2023-24 (10% rebate is obtained for payment before due date.) Arrears of municipal tax of financial year 2022-23 paid during the year of ₹1,40,000 which includes interest on arrears of ₹25,000.

Lift maintenance expenses of ₹2,40,000 which includes a payment of **₹9,000** which made in cash.

Salary of ₹88,000 paid to staff for collecting house rent and other charges. .

Compute the total income of Mr. Ravi for the assessment year 2024-25.

**Answer**

**Computation of total income of Mr. Ravi for A.Y. 2024-25**

Gross Annual Value		29,40,000
(a) Fair Rent	₹ 30,00,000	
(b) Municipal Value	₹ 27,00,000	
(c) Higher of (a) or (b)	₹ 30,00,000	
(d) Standard Rent	₹ 29,80,000	
(e) Expected Rent {Lower of (c) or (d)}	₹ 29,80,000	
(f) Rent Received/Receivable	₹ 29,40,000	
	[30,00,000 - (₹ 2,40,000 x 4/12 x 3/4)]	
In this case, if there was no vacancy, rent received/receivable would have been ₹30,00,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be rent received/receivable		
Less: Municipal Taxes		(4,75,000)
	[₹ 4,00,000 – rebate of ₹ 40,000] = ₹ 3,60,000	
	[₹ 1,40,000 arrears – ₹ 25,000 interest] = ₹ 1,15,000	
Net Annual Value		24,65,000
Less: 30% of NAV u/s 24(a)		(7,39,500)
Less: Interest on capital borrowed u/s 24(b)		Nil
Income under the head House Property		17,25,500
<b>Income from Other Sources</b>		
Rent for amenities		10,00,000
Less: Loss due to vacancy [₹ 2,40,000 x 4/12 x ¼]		(20,000)
Less: Lift maintenance expenses		(2,40,000)
Less: Salary to staff [₹ 88,000 x 1/4, being the proportion pertaining to amenities]		(22,000)
Income under the head Other Sources		7,18,000
Gross Total Income		24,43,500
Less: Deduction under Chapter VI-A		Nil
Total Income		24,43,500

**JULY – 2021****Question 3(a)****(6 Marks)**

Mr. Ramesh constructed a big house (construction completed in Previous Year 2018-2019) with 3 independent units.

Unit-1 (50% of floor area) is let out for residential purpose at monthly rent of ₹15,000. A sum of 3,000 could not be collected from the tenant and a notice to vacate the unit was given to the tenant and also a suit was filed for recovery of rent. No other property of Mr. Ramesh is occupied by the tenant. Unit- 1 remains vacant for 2 months when it is not put to any use.

Unit – 2 (25% of the floor area) is used by Mr. Ramesh for the purpose of his business.

Unit – 3 (the remaining 25%) is utilized for the purpose of his residence.

Other particulars of the house are as follows: Municipal valuation - ₹ 1,88,000, fair rent - ₹2,48,000, Standard rent under the Rent Control Act - ₹ 2,28,000, Standard rent under the Rent Control Act - ₹2,28,000, Municipal taxes paid - ₹ 20,000, repairs - ₹ 5,000, Interest on capital borrowed for the construction of the property - ₹ 60,000, ground rent – 6,000 and fire the insurance premium paid - ₹60,000.

# DEDUCTION FROM GROSS TOTAL INCOME

## CHAPTER VI-A

### SECTION 80C TO 80U

Under **optional** regime all the deductions are allowed but under **default** regime u/s 115BAC, only three deductions shall be allowed under Chapter VI-A.

1. Section 80JJAA
2. Section 80CCD(2)
3. Section 80CCH(2)

#### **Optional regime**

Deductions under section 80C to 80U are allowed from gross total income to compute total income however such deduction is allowed only from normal income.

- ❖ As per section 112, such deductions are not allowed from long term capital gains.
- ❖ As per section 58(4), such deductions are not allowed from casual income.
- ❖ As per section 111A, such deduction are not allowed from short term capital gains on the sale of short term equity shares or short term units of equity oriented mutual funds provided securities transaction tax has been paid.
- ❖ As per section 112A, such deduction are not allowed from long term capital gains on the sale of long term equity shares or long term units of equity oriented mutual funds provided securities transaction tax has been paid.

#### **Example**

Mr. X has income under the head salary ₹75,000, income from long term capital gains ₹2,10,000 and casual income ₹35,000, in this case maximum amount of deductions allowed shall be ₹75,000.

#### **Section 80C**

Deduction under section 80C shall be allowed only to (i) an individual (ii) Hindu Undivided Family to the extent of the investment given below:

1. **Investment in NSC:** Deduction shall be allowed if amount has been invested in **National Saving Certificate (NSC)** and NSC are just like a fixed deposit with a bank. Amount can be invested in the name of self, spouse or minor children and HUF can invest the amount in the name of any of its members. Deduction shall be allowed equal to the amount invested and amount received on maturity shall be exempt from income tax but interest shall be taxable every year on accrual basis but payment of interest shall be received on maturity. Deduction under section 80C shall also be allowed for such accrued interest but no deduction shall be allowed for accrued interest of the year in which assessee has received payment. NSC are issued for 5 years.

#### **Example**

Mr. X has income under the head House Property ₹10 lakh and he invested ₹50,000 in NSC on 01.10.2023. He has invested ₹40,000 in previous year 2022-23 also and there is accrued interest of ₹4,000 in previous year 2023-24. He has also received ₹1,00,000 on maturity of NSC which were invested in the earlier year and original amount is ₹60,000 and interest for current year is ₹8,000, in this case his tax liability shall be

Income under the head House Property		10,00,000
Income under the head Other Sources (4,000+ 8,000)		12,000
Gross Total Income		10,12,000
Less: Deduction u/s 80C		
Investment in current year	50,000	
Accrued interest	4,000	(54,000)

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 301****(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

- 3,00,000 + 2,00,000 = 5,00,000

Deemed Dividend u/s 2(22)(a) shall be as follows-

<b>Market Value</b>	<b>Deemed Dividend</b>
5,00,000	5,00,000
7,00,000	5,00,000

**(ii) Issue of bonus shares etc. Section 2(22)(b)**

If any company has issued bonus shares to the equity shareholders, it will not be considered to be dividend but if the bonus shares have been issued to the preference shareholders, it will be considered to be dividend but to the extent of accumulated profits whether capitalised or not. Further, market value of the bonus shares shall be taken into consideration.

***Example***

Mr. X is holding 100 preference share in ABC Ltd. The company has issued him 100 bonus shares and their market value is ₹1,200. In this case, it will be considered to be dividend but only to the extent of accumulated profits whether capitalized or not.

**(iii) Distribution on liquidation Section 2(22)(c)**

If any company has distributed any amount to its shareholders in connection with its liquidation, it will be considered to be dividend but only to the extent of accumulated profits and any excess over it shall be considered to be full value of consideration as per section 46 and capital gains shall be computed accordingly.

***Example***

ABC Ltd. has 1,00,000 equity shares of ₹10 each and the company goes into liquidation on 31.07.2023 and company has net distributable amount of ₹60 lakhs after discharging all the liabilities including income tax and it includes accumulated profits of ₹20 lakhs and the entire amount was distributed among the shareholders and Mr. X is holding 10,000 equity shares which were purchased by him on **01.03.2023** for ₹1,10,000, in this case, tax treatment shall be as given below:

Net Distributable Amount	₹ 60,00,000
Share of Mr. X (10%)	6,00,000
Share of Mr. X out of accumulated profits which is considered dividend u/s 2(22)(c)	(2,00,000)
Balance to be considered full value of consideration	4,00,000
Less: Cost of acquisition of shares	(1,10,000)
Short term Capital Gain	2,90,000
Dividend u/s 2(22)(c)	2,00,000
Tax liability on ₹ 4,90,000 at slab rate	9,500
Less: Rebate u/s 87A	(9,500)
Tax Liability	Nil

**(iv) Distribution on reduction of share capital Section 2(22)(d)**

Any distribution to its shareholders by a company on the reduction of its capital, to the extent to which the company possesses accumulated profits e.g. Mr. X is holding 100 shares in ABC Ltd. of ₹10 each and company has paid ₹5 per share in connection with reduction of share capital, in this case amount so received shall be considered to be dividend but only to the extent of accumulated profits including capitalized profits.

***Example***

Mr. X is holding 1000 shares of ABC Ltd. of ₹10 each and company has reduced its share capital and has refunded ₹5 per share to the shareholders, the amount so received by the shareholders shall be considered to be dividend to the extent of accumulated profit.

ABC Ltd. has share capital 50,00,000 and Reserve and Surplus ₹ 10,00,000 and company has distributed ₹15,00,000 in correction with reduction of share capital, in this case dividend under section 2(22)(d) shall be ₹ 10,00,000.

**(v) Loan and advance by a closely held company Section 2(22)(e)**

If any closely held company (also called company in which public are not substantially interested) has given any loan or advance to an equity shareholder who is holding not less than 10% of the voting power of the